

Amended Statement Cover

Amendment due to adjusting journal entry for federal income tax provision and liability



ANNUAL STATEMENT
For the Year Ending December 31, 2007
OF THE CONDITION AND AFFAIRS OF THE
Health Plan of Michigan, Inc.

NAIC Group Code	0000 (Current Period)	,	0000 (Prior Period)	NAIC Company Code	52563	Employer's ID Number	38-3253977
Organized under the Laws of	Michigan			State of Domicile or Port of Entry	Michigan		
Country of Domicile	United States of America						
Licensed as business type:	Life, Accident & Health[] Dental Service Corporation[] Other[]		Property/Casualty[] Vision Service Corporation[] Is HMO Federally Qualified? Yes[] No[X] N/A[]		Hospital, Medical & Dental Service or Indemnity[] Health Maintenance Organization[X]		
Incorporated/Organized	12/31/1995			Commenced Business	12/31/1995		
Statutory Home Office	777 Woodward Ave. Suite 600 (Street and Number)			Detroit, MI 48226 (City or Town, State and Zip Code)			
Main Administrative Office	777 Woodward Ave. Suite 600 (Street and Number)						
	Detroit, MI 48226 (City or Town, State and Zip Code)			(313)324-3700 (Area Code) (Telephone Number)			
Mail Address	777 Woodward Ave. Suite 600 (Street and Number or P.O. Box)			Detroit, MI 48226 (City or Town, State and Zip Code)			
Primary Location of Books and Records				Same (Street and Number)			
	Same, (City or Town, State and Zip Code)			(313)324-3700 (Area Code) (Telephone Number)			
Internet Website Address	www.hpmmich.com						
Statutory Statement Contact	Jon B. Cotton (Name)			(313)324-3705 (Area Code)(Telephone Number)(Extension)			
	jcotton@hpmmich.com (E-Mail Address)			(313)202-0075 (Fax Number)			

OFFICERS

Name	Title
David B. Cotton M.D.	President/CEO
Thomas Lauzon	Secretary/CIO
Janice Torosian	Treasurer/CFO

OTHERS

DIRECTORS OR TRUSTEES

George Ellis
Thomas Lauzon
Kimberly Harper #

State of Michigan
County of Wayne ss

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of the said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

(Signature) David B. Cotton, M.D.	(Signature) Thomas Lauzon	(Signature) Janice Torosian
(Printed Name) 1.	(Printed Name) 2.	(Printed Name) 3.
President	Secretary	Treasurer
(Title)	(Title)	(Title)
Subscribed and sworn to before me this day of , 2008	a. Is this an original filing? b. If no, 1. State the amendment number 2. Date filed 3. Number of pages attached	Yes[] No[X] 1 03/17/2008 10
(Notary Public Signature)		

ASSETS

		Current Year			Prior Year
		1	2	3	4
		Assets	Nonadmitted Assets	Net Admitted Assets (Cols.1-2)	Net Admitted Assets
1.	Bonds (Schedule D)	13,787,197		13,787,197	12,174,072
2.	Stocks (Schedule D)				
2.1	Preferred stocks	545,915		545,915	620,343
2.2	Common Stocks				
3.	Mortgage loans on real estate (Schedule B):				
3.1	First liens				
3.2	Other than first liens				
4.	Real estate (Schedule A):				
4.1	Properties occupied by the company (less \$.....0 encumbrances)				
4.2	Properties held for the production of income (less \$.....0 encumbrances)				
4.3	Properties held for sale (less \$.....0 encumbrances)				
5.	Cash (\$.....39,457,219 Schedule E Part 1), cash equivalents (\$.....0 Schedule E Part 2) and short-term investments (\$.....10,000,000 Schedule DA)	49,457,219		49,457,219	32,380,435
6.	Contract loans (including \$.....0 premium notes)				
7.	Other invested assets (Schedule BA)	7,106,802		7,106,802	7,854,291
8.	Receivables for securities				
9.	Aggregate write-ins for invested assets				
10.	Subtotals, cash and invested assets (Lines 1 to 9)	70,897,133		70,897,133	53,029,141
11.	Title plants less \$.....0 charged off (for Title insurers only)				
12.	Investment income due and accrued	109,650		109,650	117,165
13.	Premiums and considerations				
13.1	Uncollected premiums and agents' balances in the course of collection				
13.2	Deferred premiums, agents' balances and installments booked but deferred and not yet due (Including \$.....0 earned but unbilled premiums)				
13.3	Accrued retrospective premiums				
14.	Reinsurance:				
14.1	Amounts recoverable from reinsurers				
14.2	Funds held by or deposited with reinsured companies				
14.3	Other amounts receivable under reinsurance contracts				
15.	Amounts receivable relating to uninsured plans				
16.1	Current federal and foreign income tax recoverable and interest thereon				
16.2	Net deferred tax asset				(723,000)
17.	Guaranty funds receivable or on deposit				
18.	Electronic data processing equipment and software				
19.	Furniture and equipment, including health care delivery assets (\$.....0)				
20.	Net adjustment in assets and liabilities due to foreign exchange rates				
21.	Receivables from parent, subsidiaries and affiliates				
22.	Health care (\$.....2,659,435) and other amounts receivable	2,659,435		2,659,435	991,935
23.	Aggregate write-ins for other than invested assets	826,940	813,388	13,552	13,552
24.	Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	74,493,158	813,388	73,679,770	53,428,793
25.	From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
26.	Total (Lines 24 and 25)	74,493,158	813,388	73,679,770	53,428,793
DETAILS OF WRITE-INS					
0901.	.....			
0902.	.....			
0903.	.....			
0998.	Summary of remaining write-ins for Line 9 from overflow page				
0999.	TOTALS (Lines 0901 through 0903 plus 0998) (Line 9 above)				
2301.	Deposits	13,552		13,552	13,552
2302.	Acquired Membership Value	645,090	645,090		
2303.	Long Term Investment Fair Value Adjustment	168,298	168,298		
2398.	Summary of remaining write-ins for Line 23 from overflow page				
2399.	TOTALS (Lines 2301 through 2303 plus 2398) (Line 23 above)	826,940	813,388	13,552	13,552

LIABILITIES, CAPITAL AND SURPLUS

		Current Year			Prior Year
		1 Covered	2 Uncovered	3 Total	4 Total
1.	Claims unpaid (less \$.....0 reinsurance ceded)	30,684,245		30,684,245	17,451,819
2.	Accrued medical incentive pool and bonus amounts	1,629,743		1,629,743	837,200
3.	Unpaid claims adjustment expenses	577,000		577,000	436,000
4.	Aggregate health policy reserves				
5.	Aggregate life policy reserves				
6.	Property/casualty unearned premium reserves				
7.	Aggregate health claim reserves				
8.	Premiums received in advance				
9.	General expenses due or accrued	1,971,160		1,971,160	3,760,252
10.1	Current federal and foreign income tax payable and interest thereon (including \$.....0 on realized capital gains (losses))	2,687,501		2,687,501	500,000
10.2	Net deferred tax liability	828,000		828,000	
11.	Ceded reinsurance premiums payable				
12.	Amounts withheld or retained for the account of others				
13.	Remittances and items not allocated				
14.	Borrowed money (including \$.....0 current) and interest thereon \$.....0 (including \$.....0 current)				
15.	Amounts due to parent, subsidiaries and affiliates				
16.	Payable for securities				
17.	Funds held under reinsurance treaties with (\$.....0 authorized reinsurers and \$.....0 unauthorized reinsurers)				
18.	Reinsurance in unauthorized companies				
19.	Net adjustments in assets and liabilities due to foreign exchange rates				
20.	Liability for amounts held under uninsured plans				
21.	Aggregate write-ins for other liabilities (including \$.....0 current)				
22.	Total liabilities (Lines 1 to 21)	38,377,649		38,377,649	22,985,271
23.	Aggregate write-ins for special surplus funds	X X X	X X X		
24.	Common capital stock	X X X	X X X	44,700	44,700
25.	Preferred capital stock	X X X	X X X		
26.	Gross paid in and contributed surplus	X X X	X X X	251,363	251,363
27.	Surplus notes	X X X	X X X		
28.	Aggregate write-ins for other than special surplus funds	X X X	X X X		
29.	Unassigned funds (surplus)	X X X	X X X	35,006,058	30,147,459
30.	Less treasury stock, at cost:				
30.1	.....0 shares common (value included in Line 24 \$.....0)	X X X	X X X		
30.2	.....0 shares preferred (value included in Line 25 \$.....0)	X X X	X X X		
31.	Total capital and surplus (Lines 23 to 29 minus Line 30)	X X X	X X X	35,302,121	30,443,522
32.	Total Liabilities, capital and surplus (Lines 22 and 31)	X X X	X X X	73,679,770	53,428,793
DETAILS OF WRITE-INS					
2101.	.....			
2102.	.....			
2103.	.....			
2198.	Summary of remaining write-ins for Line 21 from overflow page				
2199.	TOTALS (Lines 2101 through 2103 plus 2198) (Line 21 above)				
2301.	.....	X X X	X X X		
2302.	.....	X X X	X X X		
2303.	.....	X X X	X X X		
2398.	Summary of remaining write-ins for Line 23 from overflow page	X X X	X X X		
2399.	TOTALS (Lines 2301 through 2303 plus 2398) (Line 23 above)	X X X	X X X		
2801.	.....	X X X	X X X		
2802.	.....	X X X	X X X		
2803.	.....	X X X	X X X		
2898.	Summary of remaining write-ins for Line 28 from overflow page	X X X	X X X		
2899.	TOTALS (Lines 2801 through 2803 plus 2898) (Line 28 above)	X X X	X X X		

STATEMENT OF REVENUE AND EXPENSES

		Current Year		Prior Year
		1 Uncovered	2 Total	3 Total
1.	Member Months	X X X	1,545,122	1,289,976
2.	Net premium income (including \$.....0 non-health premium income)	X X X	330,156,070	217,478,244
3.	Change in unearned premium reserves and reserve for rate credits	X X X		
4.	Fee-for-service (net of \$.....0 medical expenses)	X X X		
5.	Risk revenue	X X X		
6.	Aggregate write-ins for other health care related revenues	X X X	(19,331,819)	(12,752,429)
7.	Aggregate write-ins for other non-health revenues	X X X		
8.	Total revenues (Lines 2 to 7)	X X X	310,824,251	204,725,815
Hospital and Medical:				
9.	Hospital/medical benefits		205,202,968	111,691,539
10.	Other professional services		1,500,091	1,392,867
11.	Outside referrals		12,848,676	12,181,076
12.	Emergency room and out-of-area		6,915,655	6,133,664
13.	Prescription drugs		43,013,016	34,090,247
14.	Aggregate write-ins for other hospital and medical		142,615	1,395,306
15.	Incentive pool, withhold adjustments and bonus amounts		4,522,507	3,605,715
16.	Subtotal (Lines 9 to 15)		274,145,528	170,490,414
Less:				
17.	Net reinsurance recoveries		407,547	137,333
18.	Total hospital and medical (Lines 16 minus 17)		273,737,981	170,353,081
19.	Non-health claims (net)			
20.	Claims adjustment expenses, including \$.....0 cost containment expenses		1,088,961	381,623
21.	General administrative expenses		24,689,952	17,786,161
22.	Increase in reserves for life and accident and health contracts (including \$.....0 increase in reserves for life only)			
23.	Total underwriting deductions (Lines 18 through 22)		299,516,894	188,520,865
24.	Net underwriting gain or (loss) (Lines 8 minus 23)	X X X	11,307,357	16,204,950
25.	Net investment income earned (Exhibit of Net Investment Income, Line 17)		2,146,457	2,132,366
26.	Net realized capital gains (losses) less capital gains tax of \$.....7,152		2,920,330	(39,093)
27.	Net investment gains (losses) (Lines 25 plus 26)		5,066,787	2,093,273
28.	Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$.....0) (amount charged off \$.....0)]			
29.	Aggregate write-ins for other income or expenses			(6)
30.	Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29)	X X X	16,374,144	18,298,217
31.	Federal and foreign income taxes incurred	X X X	5,737,501	6,300,445
32.	Net income (loss) (Lines 30 minus 31)	X X X	10,636,643	11,997,772
DETAILS OF WRITE-INS				
0601.	Quality Assurance Fee	X X X	(19,331,819)	(12,752,429)
0602.	.....	X X X		
0603.	.....	X X X		
0698.	Summary of remaining write-ins for Line 6 from overflow page	X X X		
0699.	TOTALS (Lines 0601 through 0603 plus 0698) (Line 6 above)	X X X	(19,331,819)	(12,752,429)
0701.	.....	X X X		
0702.	.....	X X X		
0703.	.....	X X X		
0798.	Summary of remaining write-ins for Line 7 from overflow page	X X X		
0799.	TOTALS (Line 0701 through 0703 plus 0798) (Line 7 above)	X X X		
1401.	Hearing/Speech devices		142,615	122,624
1402.	MI Primary Care Association			1,272,682
1403.	.....		
1498.	Summary of remaining write-ins for Line 14 from overflow page			
1499.	TOTALS (Lines 1401 through 1403 plus 1498) (Line 14 above)		142,615	1,395,306
2901.	Sale of Furniture			(6)
2902.	Rental Income			
2903.	.....		
2998.	Summary of remaining write-ins for Line 29 from overflow page			
2999.	TOTALS (Line 2901 through 2903 plus 2998) (Line 29 above)			(6)

STATEMENT OF REVENUE AND EXPENSES (Continued)

		1	2
		Current Year	Prior Year
CAPITAL & SURPLUS ACCOUNT			
33.	Capital and surplus prior reporting year	30,443,522	30,080,384
34.	Net income or (loss) from Line 32	10,636,643	11,997,772
35.	Change in valuation basis of aggregate policy and claim reserves		
36.	Change in net unrealized capital gains (losses) less capital gains tax of \$.....140,000 ..	268,701	883,679
37.	Change in net unrealized foreign exchange capital gain or (loss)		
38.	Change in net deferred income tax	35,000	(359,000)
39.	Change in nonadmitted assets	(46,742)	625,000
40.	Change in unauthorized reinsurance		
41.	Change in treasury stock		
42.	Change in surplus notes		
43.	Cumulative effect of changes in accounting principles		
44.	Capital Changes:		
44.1	Paid in		
44.2	Transferred from surplus (Stock Dividend)		
44.3	Transferred to surplus		
45.	Surplus adjustments:		
45.1	Paid in		
45.2	Transferred to capital (Stock Dividend)		
45.3	Transferred from capital		
46.	Dividends to stockholders	(6,000,000)	(11,250,000)
47.	Aggregate write-ins for gains or (losses) in surplus	(35,000)	(1,534,314)
48.	Net change in capital and surplus (Lines 34 to 47)	4,858,602	363,137
49.	Capital and surplus end of reporting year (Line 33 plus 48)	35,302,124	30,443,521
DETAILS OF WRITE-INS			
4701.	Property Dividend to Stockholders	(35,000)	(1,534,314)
4702.	0		
4703.	0		
4798.	Summary of remaining write-ins for Line 47 from overflow page		
4799.	TOTALS (Lines 4701 through 4703 plus 4798) (Line 47 above)	(35,000)	(1,534,314)

Notes to Financial Statement

HEALTH PLAN OF MICHIGAN, INC.

NAIC Company Code 52563

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2007

Note 1 – Nature of Business and Summary of Significant Accounting Policies

Health Plan of Michigan, Inc. (the “Company”) operates as a state-licensed health maintenance organization (HMO). Health Plan of Michigan, Inc. provides medical services to persons primarily in southern Michigan who subscribe as recipients of state health benefits (Medicaid benefits).

Physician and Hospital Contracts - The Company contracts directly with physician/physician groups and hospitals for the provision of medical care and compensates the providers on either a capitation or fee for service basis. The Company has a risk sharing agreement with the primary care physicians, and a portion of the capitation payments may be retained for settlement of risk-sharing agreements.

Employer Management Agreement – The Company used the services of a professional employment organization (PEO) to provide professional employer services, including payroll processing, payroll tax filing, and employee benefit administration. Under this agreement, there existed a co-employment relationship, in which both the Company and the PEO have an employment relationship with the worksite employees.

The PEO sponsors a 401(k) plan. The plan allows the Company to make discretionary matching contributions into the plan. For the year ended December 31, 2006, the Company contributed \$46,138 into the plan.

Effective June 1, 2006 the employees and all payroll related operations were transferred to the third party administrator, Caidan Management Company, who also uses the services of the PEO.

Funds Maintained Under Statutory Requirements - The Company maintains funds under statutory or contractual requirements to protect members and health care providers in the event the Company is unable to meet its contractual obligations. These funds can be issued only at the direction of the applicable insurance commissioner or other regulatory agency in accordance with statutory and contractual provisions. The Company can utilize interest earned on these funds. At December 31, 2007 and 2006, \$1,174,454 and \$1,121,339, respectively, were held in cash to fulfill these requirements.

Statutory Basis of Accounting - The financial statements have been prepared in accordance with NAIC *Accounting Practices and Procedures* manual and the statutory accounting principles as prescribed by the Michigan Office of Financial and Insurance Services. Statutory accounting principles differ from generally accepted accounting principles (“GAAP”) in their definition of assets and liabilities. Specifically, certain assets (such as intangible assets, certain receivables, prepaid expenses, and software) are excluded from the statutory-basis balance sheet. GAAP net assets exceed statutory net assets by approximately \$803,508 and \$766,646 at December 31, 2007 and 2006, respectively. The Company adopted the NAIC’s Codification of Statutory Accounting Principles on January 1, 2003 at the direction of the Michigan Office of Financial and Insurance Services. There are no significant differences between statutory accounting principles prescribed by the NAIC and the State of Michigan accounting requirements that are applicable to the Company, except for the prescribed practice for SSAP 84 Certain Health Care Receivables and Receivables Under Government Insured Plans. The impact on statutory surplus of the difference in accounting principles prescribed by the NAIC and the State of Michigan, due to the prescribed practice referenced above is \$0 at December 31, 2007 and 2006.

Cash and Cash Equivalents - The Company considers all highly liquid investments purchased with an original maturity date of three months or less to be cash equivalents. Certificates of deposit in banks or similar financial institutions with maturity dates of one year or less from the acquisition date are also considered cash under statutory accounting principles, and are reported at fair market value.

Notes to Financial Statement

Accounts Receivable - Management believes all receivables are fully collectible; accordingly, no allowance for doubtful accounts has been recorded.

Bonds – bonds are stated at amortized cost using the interest method.

Common Stocks – The Company does not have investments in common stock.

Preferred stocks – preferred stocks are stated at amortized cost.

Mortgage Loans – The Company does not have mortgage loans.

Loan Backed Securities – Loan backed securities are stated at cost; the prospective adjustment method is used to value securities.

Investments in Subsidiaries, Controlled and Affiliated Companies – The Company does not have investments in Subsidiaries, Controlled and Affiliated Companies.

Investments in Joint Ventures, Partnerships and Limited Liability Companies – investments in limited partnerships are accounted for using the equity method.

Derivatives – The Company does not have investments in derivatives.

Premium Deficiency Calculation – The Company has not calculated a premium deficiency reserve.

Capitalization Policy – The Company has not modified its capitalization policy from the prior period.

Pharmaceutical Rebates – The Company has no pharmaceutical rebates receivable.

Real Estate Investments

This Note is not applicable to the Company.

Property and Equipment - Fixed assets are recorded at cost. Depreciation is recognized on a straight-line basis over the estimated useful lives of the assets. Depreciation expense for property and equipment totaled \$0 and \$86,202 for the years ended December 31, 2007 and 2006, respectively.

Income Taxes - The Company accounts for income taxes as prescribed by SSAP Number 9. A current liability or asset is recognized based on amounts currently payable or refundable on the current year tax return. Deferred liabilities or assets are reported for the estimated future tax effects of temporary differences between statutory and tax accounting methods.

Revenue Recognition - Medicaid capitation premiums are recognized in the period members are entitled to related health care services.

Recognition of Health Care Service Costs - Health care service costs and the related liabilities for claims payable are recorded when medical services are authorized, as well as when services are provided without authorization to the extent such services are expected to be ultimately authorized. Claims payable includes an actuarially determined estimate of the ultimate cost of settling claims.

Use of Estimates - The preparation of financial statements in conformity with accounting practices prescribed or permitted by the Michigan Office of Financial and Insurance Services requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Certain significant estimates exist relating to claims payable. It is at least reasonably possible that these estimates will be materially revised in the near term.

Notes to Financial Statement

Note 2 - Accounting Changes and Corrections of Errors

This Note is not applicable to the Company.

Note 3 - Business Combinations and Goodwill

This Note is not applicable to the Company.

Note 4 - Discontinued Operations

This Note is not applicable to the Company.

Note 5 - Investments

This Note is not applicable to the Company.

Note 6 - Joint Ventures, Partnerships, and Limited Liability Companies

The Company has no investment in joint ventures, partnerships, or limited liability companies that exceed 10% of the admitted assets of the Company.

Note 7 - Investment Income

This Note is not applicable to the Company.

Note 8 - Derivative Instruments

This Note is not applicable to the Company.

Note 9 - Income Taxes

The components of incurred income tax expense and charges to surplus are as follows for the years ended December 31:

	<u>2007</u>	<u>2006</u>
Current tax due	5,737,500	6,300,445
Deferred tax expense on net unrealized gains (losses)	140,000	481,000
Deferred tax expense (recovery) included in income	<u>(35,000)</u>	<u>359,000</u>
Federal income tax incurred	<u><u>5,842,500</u></u>	<u><u>7,140,445</u></u>
Net change in deferred tax recovery	<u><u>105,000</u></u>	<u><u>840,000</u></u>

Federal income taxes consist of the following at December 31:

	<u>2007</u>	<u>2006</u>
Current tax due (refundable)	-	(30,000)
Net statutory admitted deferred liability (asset)	<u>828,000</u>	<u>723,000</u>
	<u><u>828,000</u></u>	<u><u>693,000</u></u>

Deferred taxes consist of the following:

Gross deferred tax assets	(142,000)	(107,000)
Gross deferred tax liabilities	<u>970,000</u>	<u>830,000</u>
Net admitted deferred tax assets	<u><u>828,000</u></u>	<u><u>723,000</u></u>

Changes in the main components of deferred tax assets / liabilities are as follows:

<u>DTAs</u>	<u>2007</u>	<u>2006</u>	<u>Difference</u>
<u>DTAs</u>			
Claims reserves	<u>(142,000)</u>	<u>(107,000)</u>	<u>(35,000)</u>
Total	(142,000)	(107,000)	(35,000)
<u>DTLs</u>			
Investments	<u>970,000</u>	<u>830,000</u>	<u>140,000</u>
Total	<u>970,000</u>	<u>830,000</u>	<u>140,000</u>
Net Admitted deferred tax asset	<u><u>828,000</u></u>	<u><u>723,000</u></u>	<u><u>105,000</u></u>

Notes to Financial Statement

A reconciliation of statutory to tax income and the related tax effect is as follows:

	<u>2007</u>		<u>2006</u>	
	<u>Amount</u>	<u>Tax Effect</u>	<u>Amount</u>	<u>Tax Effect</u>
Pre-tax statutory income	16,374,145	5,730,951	18,298,217	6,386,078
Reserve discount	99,115	34,690	(37,491)	(13,084)
Depreciation and amortization	-	-	42,864	14,960
Accrued pto	-	-	(175,078)	(61,102)
Accrued payroll	-	-	(940,000)	(328,060)
Tax exempt interest	(199,164)	(69,707)	(117,000)	(40,833)
Taxable income from passthroughs	680,000	238,000	800,000	279,200
Other	<u>11,778</u>	<u>4,122</u>	<u>31,750</u>	<u>11,081</u>
Taxable income/tax expense	16,965,874	5,938,056	17,903,262	6,248,238

Differences between application of federal tax rates to pretax book income and recorded income tax expense are due primarily to adjustments to tax accruals from prior periods.

Taxes available for recoupment in the event of future net operating losses:

2005	7,238,278
2006	6,300,000
2007	5,700,000

The Company’s tax return is consolidated with Caidan Enterprises, Inc., its parent company. Federal income tax will be allocated to the Company, as if the Company were filing a separate income tax return. The Company has the enforceable right to recoup federal income taxes paid in prior years in the event of future net losses, which it may incur, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.

Note 10 - Information Concerning Parent, Subsidiaries, and Affiliates

The Company is a wholly owned subsidiary of a holding company, Caidan Enterprises, Inc., as of December 31, 2003. The Company paid dividends of \$6,035,000 and \$12,784,314 in 2007 and 2006, respectively.

Effective June 1, 2006, the Company contracted with Caidan Management Company, a third party administrator related through common ownership, for administrative services. The Company paid management fees to Caidan Management Company totaling \$24,857,995 and \$12, 031,137 in 2007 and 2006, respectively.

Note 11 - Debt

The Company has no outstanding debt at December 31, 2007.

Note 12 - Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences, and Other Postretirement Benefit Plans

This Note is not applicable to the Company.

Note 13 - Capital and Surplus, Stockholders’ Dividend Restrictions, and Quasi-Reorganizations

The Company has 100,000 common shares authorized and 1,000 shares issued and outstanding at December 31, 2007. All shares are common stock with a stated value of \$44.70 per share.

Notes to Financial Statement

Subject to other regulatory limitations on capital and surplus and working capital, the Company is limited by statute to paying dividends no greater than 10 percent of annual income without prior approval of the Michigan Office of Financial and Insurance Services.

The portion of unassigned funds (surplus) represented or reduced by changes in non-admitted asset values is \$(36,862) and \$625,000 at December 31, 2007 and 2006, respectively. The portion of unassigned funds (surplus) represented or reduced by unrealized gains and losses is \$268,701 and \$883,679 at December 31, 2007 and 2006, respectively.

Note 14 - Contingencies

The Company is committed to investment up to \$1,000,000 in a real estate limited partnership, over a four year period. At December 31, 2006 and as of the date of preparation of these footnotes, the Company’s investment totaled approximately \$369,000.

Note 15 - Leases

The Company leases its office space under an operating lease through May 2008. Total rent expense under this lease was approximately \$0 and \$153,000 for 2007 and 2006, respectively. The company also leases office equipment under various noncancelable operating lease agreements that expire through June 2010. Rental expense for office equipment for 2007 and 2006 was approximately \$0 and \$73,000 respectively.

Effective June 1, 2006 the Company assigned its office space lease to its third party administrator, an organization related through common ownership. Lease payments are the responsibility of the third party administrator; however the Company retains responsibility for performance under the leases for the contract period.

Future minimum lease commitments are as follows:

2008	243,497
2009	52,239
2010	4,594

Note 16 - Information About Financial Instruments with Off-balance-sheet Risk and Financial Instruments with Concentrations of Credit Risk

This Note is not applicable to the Company.

Note 17 - Sale, Transfer, and Servicing of Financial Assets and Extinguishments of Liabilities

This Note is not applicable to the Company

Note 18 - Gain or Loss to the Reporting Entity from Uninsured A&H Plans and the Uninsured Portion of Partially Insured Plans

This Note is not applicable to the Company.

Note 19 - Direct Premium Written/Produced by Managing General Agents/Third Party Administrators

This Note is not applicable to the Company.

Note 20 – Other Items

At December 31, 2007 and 2006, the Company had admitted assets of \$2,659,435 and \$991,935, respectively, in accounts receivable for amounts due from governmental entities and other healthcare providers. The Company routinely assesses the

Notes to Financial Statement

collectibility of these receivables. At December 31, 2007 and 2006 the Company has determined there are no uncollectible receivables.

Note 21 - Events Subsequent

This note is not applicable to the Company.

Note 22 - Reinsurance

Health Plan of Michigan, Inc. maintains a non-cancelable reinsurance policy with a non-affiliated reinsurer to provide coverage on an annual per member basis after a \$175,000 deductible for eligible services is reached. The maximum lifetime reinsurance coverage payable under the agreement is \$2,000,000 per member. The Company has reported premiums net of reinsurance ceded of \$617,217 and \$668,508 as of December 31, 2007 and 2006, respectively. Losses recovered by the Company totaled approximately \$407,547 and \$137,332 in 2007 and 2006, respectively.

The Company does not have reinsurance assumed, uncollectible reinsurance, or retroactive reinsurance.

Note 23 - Retrospectively Rated Contracts and Contracts Subject to Redetermination

This Note is not applicable to the Company.

Note 24 - Change in Incurred Claims and Claim Adjustment Expenses

An enrolled actuary has determined the estimated reserve for claims incurred but not reported. Although management believes that the provision for unpaid claims is adequate, no assurance can be given that the ultimate settlement of these liabilities may not be greater or less than such estimates. Any future adjustments to these amounts will affect the reported results of future periods.

Reserves for incurred claims and claim adjustment expenses attributable to insured events of prior years has increased by \$565,407 as a result of reestimation of unpaid claims and claim adjustment expenses. This increase/decrease is generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

Note 25 – Intercompany Pooling Arrangements

This note is not applicable to the Company.

Note 26– Structured Settlements

This note is not applicable to the Company.

Note 27 – Health Care Receivables

The Company has no Pharmaceutical Rebate Receivables of December 31, 2007, and 2006. .

The Company has no accounts receivable from risk sharing arrangements at December 31, 2007 and 2006.

Note 28 – Participating Policies

This note is not applicable to the company.

Note 29 – Premium Deficiency Reserves

This note is not applicable to the company.

Note 30 – Anticipated Salvage and Subrogation

Loss reserves have not been reduced for any salvage or subrogation. During 2007 and 2006, the Company received subrogation totaling \$403,789 and \$225,611 respectively.

FIVE-YEAR HISTORICAL DATA

	1 2007	2 2006	3 2005	4 2004	5 2003
BALANCE SHEET (Pages 2 and 3)					
1. Total admitted assets (Page 2, Line 26)	73,679,770	53,428,793	51,738,742	39,170,730	30,583,712
2. Total liabilities (Page 3, Line 22)	38,377,649	22,985,271	21,658,358	18,722,697	15,579,879
3. Statutory surplus	20,655,876	20,472,581	18,012,744	14,314,185	9,434,840
4. Total capital and surplus (Page 3, Line 31)	35,302,121	30,443,522	30,080,384	20,448,035	15,003,834
INCOME STATEMENT (Page 4)					
5. Total revenues (Line 8)	310,824,251	204,725,815	180,127,438	143,141,850	94,348,396
6. Total medical and hospital expenses (Line 18)	273,737,981	170,353,081	147,176,468	119,792,963	73,299,117
7. Claims adjustment expenses (Line 20)	1,088,961	381,623	810,995	934,625	824,833
8. Total administrative expenses (Line 21)	24,689,952	17,786,161	13,358,533	12,823,777	7,926,421
9. Net underwriting gain (loss) (Line 24)	11,307,357	16,204,950	18,781,442	9,590,485	12,298,025
10. Net investment gain (loss) (Line 27)	5,066,787	2,093,273	1,212,505	482,279	184,044
11. Total other income (Lines 28 plus 29)		(6)	44,462	17,762	609
12. Net income or (loss) (Line 32)	10,636,643	11,997,772	12,953,446	6,819,526	7,916,596
Cash Flow (Page 6)					
13. Net cash from operations (Line 11)	22,281,054	13,778,956	16,753,435	10,119,592	14,226,546
RISK-BASED CAPITAL ANALYSIS					
14. Total adjusted capital	35,302,121	30,443,522	30,080,384	20,448,035	15,003,834
15. Authorized control level risk-based capital	10,327,938	7,351,678	6,431,328	5,317,239	3,225,169
ENROLLMENT (Exhibit 1)					
16. Total members at end of period (Column 5, Line 7)	133,250	119,149	100,349	87,325	68,568
17. Total members months (Column 6, Line 7)	1,545,122	1,289,976	1,140,246	980,917	692,288
OPERATING PERCENTAGE (Page 4)					
(Item divided by Page 4, sum of Lines 2, 3 and 5) x 100.0					
18. Premiums earned plus risk revenue (Line 2 plus Lines 3 and 5)	100.0	100.0	100.0	100.0	100.0
19. Total hospital and medical plus other non-health (Lines 18 plus Line 19)	82.9	78.3	76.5	79.0	75.0
20. Cost containment expenses					X X X
21. Other claims adjustment expenses	0.3	0.2	0.4	0.6	
22. Total underwriting deductions (Line 23)	90.7	86.7	83.9	88.3	83.8
23. Total underwriting gain (loss) (Line 24)	3	7	10	6	13
UNPAID CLAIMS ANALYSIS					
(U&I Exhibit, Part 2B)					
24. Total claims incurred for prior years (Line 13, Column 5)	18,854,426	15,304,676	13,374,366	13,155,757	6,717,970
25. Estimated liability of unpaid claims-[prior year (Line 13, Column 6)]	18,289,019	18,164,975	15,235,065	11,585,133	8,673,014
INVESTMENTS IN PARENT, SUBSIDIARIES AND AFFILIATES					
26. Affiliated bonds (Sch. D Summary, Line 25, Column 1)					
27. Affiliated preferred stocks (Sch. D Summary, Line 39, Column 1)					
28. Affiliated common stocks (Sch. D Summary, Line 53, Column 1)					
29. Affiliated short-term investments (subtotal included in Sch. DA, Part 2, Column 5, Line 7)					
30. Affiliated mortgage loans on real estate					
31. All other affiliated					
32. Total of above Lines 26 to 31					